Fair Value : Jurnal Ilmiah Akuntansi dan Keuangan
Volume 4, Number 10, 2022
P-ISSN: 2622-2191 E-ISSN : 2622-2205
Open Access: https://journal.ikopin.ac.id/index.php/fairvalue

The effect of good corporate governance on financial distress

Menik Indrati[1)], Rafika Handayani[2]
[1,2]Universitas Esa Unggul
[1]*menik.indrati@esaunggul.ac.id*, [2]*rafikahandayani@gmail.com*

Info Artikel
Sejarah artikel:
Diterima 15 Mei 2022
Disetujui 20 Mei 2022
Diterbitkan 25 Mei 2022

Kata kunci:
Financial distress; Blockholder ownership; Independent boards of commissioners; Blockholder ownership; CEO-chair duality; Board ownership

ABSTRACT
This study aims to determine the effect of good corporate governance on financial distress. Corporate governance (independent boards of commissioners, blockholder ownership, CEO-chair duality and board ownership) and financial hardship are being studied on firms listed on the Indonesian Stock Exchange between 2017 and 2019, according to a study. Purposive sampling was utilized by the researchers in this study to collect their data. Information about financial statements and corporate annual reports may be found at www.idxco.in, the primary source. This research includes 30 different firms. Statistical methods such as logistic regression analysis were employed in our investigation. The audit committee, the ceo-chair duality, board ownership, or the independent board of commissioners had no influence on the organization's financial troubles.

INTRODUCTION

Corporate governance as a framework that oversees firm management and minimizes conflicts of interest in the company (Worokinasih & Zaini, 2020). The establishment of corporate governance can also boost the trust of investors and corporations to have more effective operational performance (Kusumayani et al., 2019). In addition, the characteristics of the corporate governance system which consist of concentration of ownership, large ownership of directors, widespread ceo-chair duality and large board size are more likely to increase the agency problems experienced by the company and because of this, they can contribute to exacerbating financial distress. Manzaneque et al., 2016). Financial distress is an initial financial condition that continues to decline before bankruptcy or liquidation occurs (Sopian & Rahayu, 2017). Financial distress occurs when a company cannot complete its obligations in paying its debts (Ahmad, 2019). Companies that earn negative net income for several years and do not pay dividends for more than one year are considered to be in financial distress (Ayu et al., 2017).

Having an impartial board of commissioners keeps an organization more under control while also lowering agency expenses for the company, resulting in improved overall company performance. There should be more independent board commissioners to help with the problem of asymmetrical information in order to improve board information quality. To change environmental management and company needs, there must be an independent board of commissioners. Good corporate governance is supported by independent commissioners who assist in the adoption of these policies (Pachauri et al., 2014).

There are advantages to having a large number of shareholders in a corporation, such as increased control over the company's operations and the opportunity to make decisions that improve the firm's financial success (Jensen & Meckling, 1976) dalam (Shah & Hussain, 2012). Blockholder ownership has the power to sack directors if the company's performance falls short of their expectations. Management should be able to work for the benefit of the firm rather than their own interests, according to this statement.

Duality of CEO-chairman According to agency theory, a company's CEO and board chairman must alternate. Because of this, a company's financial performance may suffer if both the CEO and chairman of the Board of Directors are the same person . As a result of this arrangement, management accountability will be increased.

The financial performance of a firm is influenced by the ownership of its board of directors. Directors who were stockholders at the time would be acting in the best interest of the business. The directors will be more diligent with their company's activities, which will lead to better management (Lenne et al., 2011). When a corporation has directors who are also shareholders, investors are more concerned. Decisions and actions taken by directors if they are shareholders will lessen the likelihood of financial difficulties.

It is the responsibility of the audit committee to keep tabs on and make independent assessments of the company's management's performance. "The existence of an audit committee supports directors in fulfilling their legal and personal responsibilities, such as the completion of the annual audit process, and in guaranteeing quality of financial reporting and control systems,". A company's board of directors is responsible for a variety of functions, and the audit committee serves as a liaison between the board and the company's management.

An independent board of commissioners has been found to have a negative link with financial difficulties in a recent study by Luqman et al (2018). An earlier research, by Miglani et al. (2015), indicated that the presence of an independent board of commissioners had no effect on whether the organization faced financial difficulties. Research by Miglani et al. (2015) found a robust link between blockholder ownership and financial hardship. According to Luqman and colleagues, dual leadership has a positive effect on the financial woes of Pakistani enterprises 2018. Audit committees, according to Miglani et al. (2015), are strongly linked to financial difficulties.

An independent board of commissioners variable, blockholder ownership of CEO duality, ownership of directors and audit committees on financial crisis are some of the aspects that will be examined in this study, according to prior research. Financial troubles should be anticipated by companies. financial troubles might ensue from this. Non-financial firms listed on the Indonesian Stock Exchange were the subject of this research from 2017 to 2019.

As a result of the contract between the principal and the agent, which protects the principal's interest in keeping the company's ownership and control separate, the agency theory characterizes the connection between the two parties. The company is supervised and controlled in its management to ensure that management is carried out in accordance with applicable regulations and provisions and can minimize information asymmetry, so that it is in line with the development of good corporate governance (Kusanti & Andayani, 2015).

In the context of corporate governance, self-interested controllers in the corporation are guided by institutions and markets to make decisions that maximize shareholder value (John, K., Makhija, A.K. and Ferris, 2015). In some countries, corporate investors can help the workings of corporate portfolios to influence fundamental management changes. The study of corporate governance focuses on certain aspects of the corporate governance system. Such as independent board of commissioners, blockholder ownership, ceo-chair duality, board of directors ownership, and audit committee (Luqman et al., 2018).

METODE PENELITIAN

That good corporate governance has an impact on financial distress is the subject of the current investigation. Control variables include audit opinion, leverage, business size, and management efficiency. Data are analyzed through a process known as logistic regression to see how the independent and control factors affect the dependent one. The study's sample includes non-financial sector firms that were listed on the Indonesia Stock Exchange between 2017 and 2019. This study used a type of data collecting known as "targeted sampling." Samples of people are selected using these criteria. We looked at non-financial sector companies listed on the Indonesia Stock Exchange for the years 2017–2019, companies that published financial statements in rupiah (IDR) during that same time period, companies that had a complete audit report, and overall data from each variable used in the financial statements during that same time period.

A quantitative method and secondary data are both employed in this investigation. The study's independent factors include independent commissions, blockholder ownership, CEO duality, board ownership and audit committee ownership, as well as audit opinion, leverage, business size, and managerial efficiency. Financial difficulty is a correlated factor. The number of independent board members was determined by comparing the company's total independent board members to the total independent board members (Elloumi & Gueyle, 2001). The blockholder ownership variable is measured using data on shareholders who do not act as directors and possess more than 5% of the company's stock (Luqman et al., 2018). In order to assess the CEO-chair duality, a dummy variable was used, which gave the position of CEO and director a score of 0 if it was provided to a separate individual, while a score of 1 was given if it was given to the same person (Miglani et al., 2015)

. The total number of firm shares owned by the board of directors serves as a proxy for board ownership (Henry, 2008). In order to measure the audit committee, we used a dummy variable. If the firm does not have an audit committee, it will receive a score of 0 and if it does, it will receive a score of 1 (Luqman et al., 2018).

The audit opinion control variable in this study was measured using a dummy variable. If the auditor gives an unqualified opinion then it is given a score of 0 and if the auditor gives an unqualified opinion then it is given a score of 1 (Luqman et al., 2018). The leverage variable is measured using the DER ratio (Harianti & Paramita, 2019). The firm size variable in this study was measured using the total assets, which were converted in the form of the natural logarithm (Ln total assets) (Harianti & Paramita, 2019). And the management efficiency variable is measured using the total asset turnover ratio (Miglani et al., 2015). The financial distress variable is measured as a dummy variable with the zmijewski model, if the company is healthy it is given a score of 0 and if the company is not healthy it is given a score of 1 (Zmijweski, 1984).

RESULT AND DISCUSSION

Descriptive Statistics Test

Table 1 Descriptive Statistics Test Results

	N	Minimum	Maximum	Mean	Std. Deviation
Financial_Distess	90	0	1	.12	.329
BI	90	.20	.67	.3915	.08416
BLOCKOWN	90	.00	.75	.1622	.16378
DUALITY	90	0	1	.41	.495
DIROWN	90	.00	.85	.1853	.23067
AUDCOM	90	0	1	.70	.461
AUDOPN	90	0	1	.68	.470
LEVERAGE	90	-2.86	370.57	5.0496	38.97646
SIZE	90	14.48	30.13	24.4779	4.90834
MGTFF	90	-.36	2.72	.6061	.66264
Valid N (listwise)					

Source: data proceed

Based on table 1 shows Purposive sampling was used to choose 90 publicly traded non-financial firms from the Indonesian Stock Exchange (N). It is common to employ a dummy variable to distinguish between symptoms of non-financial distress and signs of financial hardship. At its lowest point, financial hardship (Financial Distress) has an average value of 0.012, with a standard deviation of 0.329, and a minimum value of 0. Independent commissioners have a maximum score of 0.667, the minimum score of 0.20, and an average score of 0.3915, with a standard deviation of 0.08400. The average value of BLOCKHOLDER OWNERSHIP (BLOCKOWN) is 0.1622 and the standard deviation is 0.16378. It might cost as little as a few cents up to a few dollars. The CEO-chair duality (DUALITY) scales from 0 to 1 with an average of 0.41 and a standard deviation of 0.495 percent. There is a wide variation in the board's ownership share (DIROWN), with an average stake of 0.1853 and a standard deviation of 0.23067. There was a standard deviation of 0.460, and the audit committee had an average score of 0.70. The audit opinion (AUDPON) has a mean value of 0.68 and a standard deviation of 0.470. Its minimum value is 0 and its highest value is 1. Mean is 5.0496; standard deviation is 3897646; minimum is -2.86 and high is 367.57. The smallest number is 14.48, the largest is 30.13, the average is 24.779, and the standard deviation is 4.99034 in terms of SIZE. The management efficiency ranges from –0.36 to 2.72, with an average of 0.6061 and a standard deviation of 0.66264. (MGTFF).

Feasibility Test of Regression Model

Table 2 Hosmer and Lemeshow's Goodness Fit Test Results

Hosmer and Lemeshow Test

Step	Chi-square	df	Sig.
1	.492	8	1.000

Source: data proceed

Using the Hosmer and Lemeshow Test, researchers were able to determine that the regression model was feasible, and the Goodness of Fit was found to be 0.492, with a chance of sig. 1,000 being more than 0.05. A regression model employed can predict the observed values or is in agreement with the observed data, as evidenced by this table: a regression model.

Omnibus Test

Table 3 Omnibus Test Results

OmnibusTests of Model Coefficients

		Chi-square	df	Sig.
Step 1	Step	40.584	9	.000
	Block	40.584	9	.000
	Model	40.584	9	.000

Source: data proceed

The results table 3 show of the calculation of the Omnibus Test of Model Coefficients show a Chi-Square result of 40,584 and a significance of 0.000 <0.05, which indicates that all independent variables can affect the dependent variable. In other words, the feasibility of the model can be declared fit and the model can be used

Coefficient of Determination Test (Nagelkerke R Square)

Table 4 Coefficient of Determination Test Results

Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	26.255[a]	0.363	0.692

a. Estimation terminated at iteration number 10 because parameter estimates changed by less than .001

Source: data proceed

According to the following table, the 5 independent factors employed in this study account for 69.2 percent of the dependent variable, while variables outside the study account for the remaining 30.8 percent of the dependent variable.

Wald test

Table 5 Wald Test Results

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1*	BI	18.665	9.608	3.774	1	.052	127674437.085
	BLOCKOWN	7.647	3.831	3.983	1	.046	2094.450
	DUALITY	-4.993	3.198	2.437	1	.118	.007
	DIROWN	-11.504	5.853	3.864	1	.049	.000
	AUDCOM	-1.532	1.210	1.603	1	.206	.216
	AUDOPN	-2.266	1.141	3.940	1	.047	.104
	LEVERAGE	1.081	.468	5.327	1	.021	2.946
	SIZE	-.415	.189	4.847	1	.028	.660
	MGTFF	-2.276	1.540	2.185	1	.139	.103
	Constant	2.475	3.345	.547	1	.459	11.879

Source: data proceed

Based on the results of the binary logistic regression test above, the following equation can be derived:

FINANCIAL DISTRESS = 2.475 + 18,665BI + 7,647BLOCKOWN – 4,993DUALITY - 11,504DIROWN – 1,532AUDCOM – 2,266AUDOPN + 1,081LEVERAGE – 0,415SIZE – 2,276MGTFF + Ɛ

Where:

The independent board of commissioners, whose coefficient is 18.665 with a significance value of 0.512 > 0.05, has no effect on financial hardship. The blockholder ownership coefficient, which has a p-value of 0.046 0.05, suggests that blockholder ownership has an effect on financial hardship. The coefficient of -4.993 and the significance value of 0.118 > 0.05 suggest that CEO duality has no influence on financial hardship. Coefficient - 11.504 with significance value of 0.049 0.05 shows that board ownership has a significant negative influence on financial hardship. Audit committee coefficient of +1.532 and significance value of +0.206 > 0.05 demonstrate that they have no effect on financial hardship. The audit opinion, leverage, size, and management efficiency ratios are all negative coefficients.

Influence of Independent Board of Commissioners on Financial Distress

Based on the Wald test in table 5, it shows that the independent board of commissioners has a probability value of 0.052 which means it is greater than the significant value of 0.05 and with a positive coefficient direction of 18.665. So it can be concluded that the independent board of commissioners has no effect on financial distress in non-financial sector companies or H1 is rejected. This happens because in carrying out their duties as an independent board of commissioners they must have an attitude of independence, but when implemented, an independent commissioner has a lack of independence. Thus making the supervision of management performance weak and unable to affect the occurrence of financial distress conditions. The results of this study are in line with research conducted by Miglani et al., (2015) and Ananto et al., (2017) which state that independent commissioners have no effect on financial distress.

Effect of Blockholder Ownership on Financial Distress

Based on the Wald test in table 5, it shows that blockholder ownership has a probability value of 0.046 which means it is smaller than the significant value of 0.05 and with a positive coefficient direction of 7.647. A favorable effect of blockholder ownership on non-financial sector enterprises' financial difficulties may thus be concluded, or H2 is accepted. Minority shareholders are at risk of having their riches snatched by the dominant shareholder. As a result, the interests of blockholder ownership are prioritized over those of minority shareholders. As a result of the concentration of ownership, minority and majority shareholders have asymmetric knowledge. Research by Ernawati et al. (2018) shows that blockholder ownership has a favorable impact on financial hardship, and our findings are in accordance with their findings.

Effect of CEO-Chair Duality on Financial Distress

Based on the Wald test in table 5, it shows that CEO duality has a probability value of 0.118 which means it is greater than the significant value of 0.05 and with a negative coefficient direction of -4.993. So it can be said that CEO duality has no effect on financial distress in non-financial sector companies or H3 is rejected. This proves that in Indonesia leadership can only be carried out by different people in each department. This is due to improve management accountability and reduce the negative impact on company performance. This study is in line with the research of Manzaneque et al., (2015) which states that CEO duality has no significant effect on financial distress.

The Effect of Board of Directors Ownership on Financial Distress

The ownership of the board of directors has a probability value of 0.049 which means it is smaller than the significant value of 0.05 and with a negative coefficient direction of -11.504. Non-financial sector enterprises can therefore be deemed to have a negative influence on financial distress if the ownership of directors is taken into account. A company's financial success is influenced by the ownership of its board of directors. As a result of the board of directors owning stock in the firm, the directors will be more inclined to act in the best interest of the company. Financial problems are therefore becoming less frequent in the business. We find that the ownership of directors has an adverse influence on financial hardship, which is consistent with previous research by Luqman et al., (2018) and Ernawati et al, (2018).

Influence of the Audit Committee on Financial Distress

Assuming that the audit committee's likelihood is larger than 0.05 and in the negative direction of -1.532, it has a probability value of 0.206. As a result, either H5 is rejected or the audit committee has no influence on non-financial sector company financial difficulty. This demonstrates that the audit committee's functions and composition have no effect on the company's performance. In order to prevent financial trouble, the audit committee serves as a watchdog to ensure that the company's management is doing a good job and that there are no conflicts of interest. The audit committee has little impact on financial hardship (Ananto et al., 2017).

CONCLUSION

Findings from the study's logistic regression suggest that the presence of financial hardship is more likely among companies owned by blockholders, whereas director ownership is less likely. When financial crisis occurs in a corporation, an independent board of commissioners variable shows that the number of independent board members does not have an impact on this occurrence. Due to a lack of CEO-chair duality in Indonesian corporations, it has little impact on the occurrence of financial trouble. A company's audit committee has no impact on financial hardship because its primary role is to monitor and assess the performance of management in order to eliminate agency issues and avoid financial distress.

DAFTAR PUSTAKA

Ahmad, A. H. (2019). What factors discriminate reorganized and delisted distressed firms: Evidence from Malaysia. *Finance Research Letters, 29*(C), 50–56.

Ananto, R. P., Mustika, R., & Handayani, D. (2017). Pengaruh GCG, leverage, profitabilitas dan UP terhadap FD pada perusahaan barang konsumsi yang terdaftar di Bursa Efek Indonesia. *Jurnal Ekonomi Dan Bisnis Dharma Andalas, 19*(1), 92–105.

Ayu, A. S., Handayani, S. R., & Topowijono, T. (2017). *Pengaruh likuditas, leverage, profitabilitas, dan ukuran perusahaan terhadap financial distress studi pada perusahaan manufaktur sektor industri dasar dan kimia yang terdaftar di Bursa Efek Indonesia tahun 2012-2015*. Brawijaya University.

Ernawati, E., Handojo, S. E., & Murhadi, W. R. (2018). *Financial performance, corporate governance, and financial distress*.

Harianti, R., & Paramita, R. A. S. (2019). Analisis faktor internal terhadap financial distress sektor perdagangan, jasa, dan investasi yang go public pada periode 2013–2017. *Jurnal Ilmu Manajemen*, *7*(4), 984–993.

John, K., Makhija, A.K. and Ferris, S. P. (2015). International corporate governance. *Advances in Financial Economics*, *18*.

Kusanti, O., & Andayani, A. (2015). Pengaruh good corporate governance dan rasio keuangan terhadap financial distress. *Jurnal Ilmu Dan Riset Akuntansi (JIRA)*, *4*(10).

Kusumayani, N. L., Widanaputra, A., Wirama, D. G., & Budiasih, I. G. A. N. (2019). The ability of good corporate governance in moderating the effects of financial distress on the velocity of publication of the financial statements. *International Journal of Multicultural and Multireligious Understanding*, *6*(5), 80–94.

Luqman, R., Ul Hassan, M., Tabasum, S., Khakwani, M. S., & Irshad, S. (2018). Probability of financial distress and proposed adoption of corporate governance structures: Evidence from Pakistan. *Cogent Business & Management*, *5*(1), 1492869.

Manzaneque, M., Priego, A. M., & Merino, E. (2015). Corporate governance effect on financialdistress likelihood: Evidence from Spain. *Spanish Accounting Review*, *1*.

Miglani, S., Ahmed, K., & Henry, D. (2015). Voluntary corporate governance structure and financial distress: Evidence from Australia. *Journal of Contemporary Accounting & Economics*, *11*(1), 18–30.

Pachauri, P., Bathala, L. R., & Sangur, R. (2014). Techniques for dental implant nanosurface modifications. *The Journal of Advanced Prosthodontics*, *6*(6), 498–504.

Shah, S. Z. A., & Hussain, Z. (2012). Impact of ownership structure on firm performance evidence from non-financial listed companies at Karachi Stock Exchange. *International Research Journal of Finance and Economics, 84*(3), 6–13.

Sopian, D., & Rahayu, W. P. (2017). Pengaruh rasio keuangan dan ukuran perusahaan terhadap financial distress (studi empiris pada perusahaan food and beverage di Bursa Efek Indonesia). *Competitive Jurnal Akuntansi Dan Keuangan*, *1*(2).

Worokinasih, S., & Zaini, M. L. Z. B. M. (2020). The mediating role of Corporate Social Responsibility (CSR) disclosure on Good Corporate Governance (GCG) and firm value. *Australasian Accounting, Business and Finance Journal*, *14*(1), 88–96.